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The formation of the Eurasian Economic Union: How successful is the Russian regional hegemony?

Ksenia Kirkham

King's College London, UK

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ABSTRACT

January 2015 witnessed an important step towards further integration in Eurasia, with the Eurasian Economic Union (EAEU) coming into operation. It comprises three members of the former Eurasian Customs Union (CU), Russia, Belarus and Kazakhstan, plus Kyrgyzstan and Armenia.

Recent debates on Eurasian integration consider the EAEU to be a Russian hegemonic project in the region. However, the potential of this project is yet to be discovered. This article has pioneered in applying the neo-Gramscian approach to analysing the potential for the EAEU as a Russian counter-hegemonic initiative. The neo-Gramscian understanding of hegemony, which constitutes of four core elements, is reflected in the structure of the article: the institutional design, material capabilities (the capitalist system), security invulnerability (geopolitics) and cultural leadership.

The article concludes that Russian regional hegemony has not yet been formed, but has the potential to be completed. Hegemony has been consolidated domestically, and has started outward expansion through the EAEU as its institutional mechanism. However, to succeed with its hegemonic project, the Russian government should not simply copy the EU's institutional design but learn how to present the achievements of integration as successful efforts at creating a strong welfare system that favours key social groups in order to obtain social consent and take cultural leadership.

The novelty of the presentation of hegemony as an evolutionary process, which passes through initial, transitional and conclusive phases of its development, along with the recentness of the EAEU as a topic, could make this article a contribution to Eurasian integration studies.

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1. Introduction

In 2007, Russia, Kazakhstan and Belarus declared their intention to create a customs union within the Eurasian Economic community – the Eurasian Customs Union (CU). In contrast to the manifold previous attempts at integra-

tion in the post-Soviet space, this initiative happened to be a fast-moving project that managed to make sufficient practical steps, such as the introduction of the common customs tariff, the adoption of the Customs Code in 2010, and the elimination of border controls in 2011. January 2015 witnessed an important step towards further integration of the CU members, with the Eurasian Economic Union (EAEU) coming into operation, with Kyrgyzstan and Armenia joining as new members.

The actuality of Eurasian integration studies is dictated by the attention paid by politicians and academia to the

69 Aberdeen Rd., London N5 2XB, UK.

E-mail address: ksenia.kirkham@kcl.ac.uk.

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Russian Federation's policy in the "Near Abroad", characterised as focused on achieving Russian regional hegemony (Saivetz, Shevtsova, Tsygankov, Trenin, Van Herpen). The EAEU's significance as a case study for this article stems from questions about what caused the recent CU to succeed where its predecessors failed, and why now, but not before, the EAEU could become an efficient tool for recapturing and preserving Russian dominance in the region.

This article argues that the current historical moment could be favourable for the EAEU to form part of the Russian hegemonic project. The main research question pertains to how successful the EAEU is as a tool of Russian regional hegemony. This main topic implies the challenge of defining the notion of hegemony. It is suggested that most of the existing papers on Eurasian integration and on Russian foreign policy contain four basic analytical flaws. Firstly, hegemony is defined within foundational positivist traditions, where the multifaceted concept of hegemony is reduced to political, economic or military dominance. Secondly, the analysis is based on existing theories of European integration, which have been developed vis-à-vis European experience and therefore don't reflect Eurasian peculiarities. Thirdly, the role of social forces in achieving hegemony is neglected, and finally, these papers fail to consider competitive struggles between capitals, neither vertical capital-labour relations nor horizontal inter-capital rivalry (Apeldoorn, 2002).

The EAEU is an infant project, which puts limitations on practical research methods and makes it problematic to fully base the analysis on foundational ontology. However, existing theoretical shortcomings and scarce empirical evidence, which is reduced to the statistical data on the CU, could be overcome by referring to absolute historicism, which assumes a dialectical understanding of history, and the relationship between economic and socio-cultural factors when referring to Russian hegemony. Therefore, this article applies the neo-Gramscian concept of hegemony to the analysis of Eurasian integration. By placing the EAEU within a particular historic moment, "with the possibility of the recurrence of the old issues, which are perennial", it is possible to estimate its prospects for success (Morton, 2007, p. 30).

Section 1, which is fully devoted to a literature review and the theoretical aspects of the article, is followed by sections designed to reflect the practical application of the neo-Gramscian understanding of hegemony, which is constituted of four "essential parts" or elements: institutional design, material capabilities (capitalist system, economics), security invulnerability (geopolitics) and cultural leadership (Linklater, 2005).

Section 2 considers the material aspects of Russian hegemony in three sequential subtopics. The first implicitly defines Russian capitalism as the formation of a historic regional or global block that starts at the national level (Morton, 2007, p. 132). The nature of capitalism predetermines the configuration and transformation of social forces (Bieler, 2002; Gill, 2003), which is the starting point of the analysis. The second subtopic refers to the institutional composition of the hegemonic project, which is a "part of the dialectical complex of the 'national' and 'international'" (Morton, 2007, p. 79) when hegemony "moves outward" after it is "consolidated domestically" (Cox, 1983, 171). The third subtopic considers economic issues facing the EAEU

to define the material potential and constraints of Eurasian integration.

Section 3 analyses the geopolitical challenges and ideological constraints facing the Russian hegemonic project, as the effectiveness of the EAEU depends on whether its underlying principles manage to extend beyond state policies "right into the conscious shaping of the balance among social forces within states and the emerging configuration of historic blocks" (Cox, 1987, pp. 214–125).

The main theoretical development of the article is to present the concept of hegemony as an evolutionary process, which passes through three phases: initial, transitional and conclusive. This presentation allows us to estimate hegemonic phases for each of the elements, which, combined via SWOT-analysis, drive us to the article's conclusion.

2. Theoretical aspects of Eurasian regionalism

2.1. The concept of hegemony and neo-imperialism in the studies of Eurasian integration

The contemporary relevance of regionalism in Eurasia is reflected by the large number of academic analyses on the topic, but these tend to approach the issue from an external perspective, "outside-in", neglecting to consider attitudes within Russian, Kazakh and Belorussian society, and the peculiarities of the region's self-positioning with regard to the rest of the world. Using the experience of the EU, they proclaim the Western democratic model as the best alternative to existing regimes. The EAEU is seen as an attempt by the Kremlin to develop a rival project to the EU's Eastern Partnership (Dreyer & Popescu, 2014). Interestingly, in some interpretations post-Soviet regionalism is seen in a new light. Roy Allison and Kathleen Collins argue post-Soviet regionalism's main objective is not to foster economic cooperation between states, but to establish "mutual protection" for autocratic regimes or "insulate" some countries from external democratic influences (Allison, 2008; Collins, 2009). Most often, Eurasian integration is analysed through the prism of Russian foreign policy strategy, with notions of empire and hegemony widely used to characterise it as expansionist, post-imperialist and even "de-colonialist" (Bugajski, 2004; Lucas, 2014; Van Herpen, 2014).

Many papers by Western academics undertake a purely realist approach, defining the EAEU as Russia's neo-imperial project. The notion of hegemony is flattened to the overt facets of power relations, such as territorial expansion and direct political-military and economic domination. These accounts suffer from Russo-phobia, suggesting that if Russia has not progressed to liberal democracy, it is potentially dangerous to Western countries, as antidemocratic regimes instinctively have imperialistic ambitions (Brzezinski, 1994). From this standpoint, the EAEU is seen as a manifestation of the "post-imperial syndrome", rooted in "annexationist Pan-Russianism", alongside pre-imperial Russian foreign policy (Van Herpen, 2014, p. 56).

Some Western authors who have managed to move beyond a purely realist approach deny the characterisation of Russia as "post-empire" or a "pre-imperial state". For instance, Jeffrey Mankoff, synthesising neorealist with constructivist analytical frameworks, suggests that Eurasian

regionalism is an “inward focused” alternative to the “returning great powers” for integrating with global space, with no ambition to overthrow the existing international world order by undermining the West. The aim of this integration is to conduct domestic reforms, strengthen the region’s role in the global political and economic arena, and “re-establish Russia as a major global player” (Mankoff, 2012, p. 21). The author agrees, however, that neorealist thinking, with its power relations and security issues, better explains the inconsistency of Putin’s political course, with “the twist” from cooperation with the West in 2001–2002 to more confrontational behaviour during his next term rather than constructivist methods of political discourse and “identity coalitions” (51–52). Nevertheless, some within the same neorealist tradition arrive at the opposite conclusion regarding the inconsistent course of Russian foreign policy. For them, Russia has never ceased to aspire to great-power status, as it suffers from a “collective inferiority complex” (Saivetz, 2012, p. 402). Elena Kropatcheva, a Russian-speaking representative of a Western academic institution, argues that Putin’s political course in the so-called near-abroad has actually been “consistent in pursuing its main realist interests: maximization of power and security. ...vis-a-vis the West”, which is constantly triggered by the exclusion of Russia from international decision-making (Kropatcheva, 2012, p. 33). This desire of Russia to dominate the Eurasian region, however, is no longer backed by the state’s military or economic capacity (Spechler & Spechler, 2013).

Some western authors analyse Eurasian integration with reference to liberal theories (Connolly, 2014; Cooper, 2013; Dragneva & Wolczuk, 2014; Malle, 2013; Olcott, 2005). From these perspectives, Eurasian regionalism is not a product of Russian hegemonic ambitions but a “tendency for states to form regional groupings” in order to receive protection from the negative impacts of globalisation by institutionalising relationships (Dragneva & Wolczuk, 2014, p. 1). Russian-led Eurasian integration aims at developing a regime in which uncertainty, transaction costs and market failures will be minimised (Dragneva & Wolczuk, 2014). The regional “hegemon” exists, not as a rival, but rather as a leader, attracting neighbouring states into closer cooperation. The regional hegemon exercises its power not through direct military or economic domination, but through the creation of an international regime, which, if successful, lives its own life and could even redefine national interests (Keohane, 1984). Within the remit of the liberal theoretical framework, the neoinstitutional and neofunctional models could be applied for the study of the EAEU. A similar attempt was made by Rilka Dragneva and Kataryna Wolczuk in their analysis of costs and benefits that the Eurasian economic union would bring to its member-states. Their approach, however, is not state-centred, and includes a functional dimension of state-society relations, where domestic interest groups and representation matter. The authors suggest that the EAEU cannot be viewed solely through the prism of Russia’s hegemonic ambition in the region, as such a narrow focus fails to consider external “political, economic, administrative and international challenges” or to capture the role of other member states in the development of regional integration projects (Dragneva & Wolczuk, 2014, p. 7).

As for Russian academia, most papers published on the topic are purely descriptive and often “follow a similar pattern of reasoning, represented by a number of standard assumptions” (Libman, 2012). They are also criticised for being clogged by “ideological statements and declarations”, which contaminate academic discourse with “politically biased judgements” (Makarychev, 2013, p. 239). As Alexander Libman puts it, overall, relevant Russian studies have weak theoretical foundations and are often “full of descriptive statistics, but almost never contain original research (e.g. interviews, detailed case studies, or econometric analysis)” (239). He argues that such works contain four major assumptions which are seldom debated as they are assumed to be self-evident. Firstly, Eurasian integration is considered economically beneficial to all parties. Secondly, lack of political willpower is believed to be the reason for the failure of previous integration initiatives in the region. Thirdly, the assumption is that post-Soviet countries should follow the same pattern as the EU. Lastly, the average “post-Soviet paper” would suggest that political pressure from Western countries impedes closer cooperation among Eurasian states (Libman, 2012).

Libman’s argument that Russian papers are more descriptive than analytical is not quite true. Firstly, some papers have a clear realist vision of world politics, viewing Eurasian integration as a neo-imperialist intention of the Russian Federation (Shevtsova, 2009; Tsygankov, 2014; Trenin, 2010). In most works published in the years following the collapse of the Soviet Union, the popular idea was that of another “Great Game”, in which former Soviet states were viewed as an arena for economic and strategic rivalry and competition between the major geopolitical players. Post-Soviet integration is considered “one of the aspects of Russian foreign policy” which have changed under different leaders’ visions of Russia’s national interests, representing five different “schools of geopolitical thinking” with respect to the future of post-Soviet regionalism: “expansionists, civilisationists, stabilizers, geo-economists and Westernizers” (Tsygankov, 2005). From this perspective, the EAEU is viewed as a purely Russian geopolitical project, a “political platform for economic integration”, aimed at re-establishing the country’s position in the multipolar world “as a major power” (Trenin, 2011, p. 155, cited in Saivetz, 2012, p. 406). This, however, doesn’t mean that Russia has “acquired a taste for hegemony to replace multilateralism” (Tsygankov, 2009, p. 59, cited in Kropatcheva, 2012, p. 36). The EAEU project is criticized for being very costly and weak in its conceptual dimension, which makes some authors doubt its viability (Borodkin, 2011). For instance, Dmitri Trenin outlines the detrimental effects of Russia’s self-positioning in opposition to Western civilisation, arguing that the conception of Russia as a Eurasian state might be baseless (Trenin, 2002). Secondly, when some Russian authors consider the EAEU as potentially beneficial for all parties, this analysis has a strong liberal theoretical foundation, where neo-institutionalism is combined with a neo-functional theory of integration (Podberezkin, Borishpolets, & Podberezkina, 2013). Regionalism is seen as a process parallel and rival to globalisation. It is suggested that the world has entered a new phase of political and economic development, where the main actors are not states but “Global

regions" (Vasilieva & Lagutina, 2011, p. 167). Thus, the Eurasian region has acquired "global" features, with integration as not only a linear interaction between the states but an attempt to achieve a qualitatively new level of cooperation (Tkachuk, 2014; Vasilieva & Lagutina, 2011). Thirdly, Eurasian integration has been analysed using anti-foundational and interpretivist accounts, according to which Russian hegemony is a phenomena constructed within society via political discourse (Makarychev, 2013). The formation of a Eurasian identity takes a central place in the "combination of discourses" between central authorities and the Russian, Kazakh, and Belarussian peoples (239). In Russia, Eurasianism is nothing but a "post-political" hegemonic discourse of the Kremlin, which "instrumentalises" conservative ideas "in providing an ideological basis for its Eurasian Union project and concomitant alienation from the West", legitimising its ideas as indisputably obvious (249). This constructivist approach to analysing the formation of the EAEU in the wider context of Eurasian regionalism brings us closer to the concept of hegemony, which will be adopted as the baseline theoretical framework for this article.

2.2. Alternative definitions of hegemony

This section aims to demonstrate: 1. how the conceptualisation of power and hegemony differs between conventional and neo-Gramscian perspectives; 2. why the neo-Gramscian perspective was chosen for the EAEU study; 3. how the adopted concept could be amplified for analytical purposes.

1. Central to the concept of hegemony is the notion of power. Realism restricts power relations to its military and strategic aspects, defining hegemony as the dominant position which states acquire in the process of relative distribution of power within an anarchic world system (Gilpin & Gilpin, 2001; Waltz, 1979). Structural realism, along with long-cycle and world-economy theories, is a historical-structural approach, which sees hegemony as a product of the discontinuous evolution of the world system, in which the distribution of power has long-term variations (Gilpin & Gilpin, 2001; Waltz, 1979). Within the concept of the balance of power, the rise of a hegemon brings stability, while its decline endangers the world order, and may "ultimately lead to war" (Gilpin & Gilpin, 2001; Konrad, 2012). Alternatively, liberal institutionalism introduces the theory of hegemonic stability, according to which hegemonic power resides in institutional structures, governed by rational actors, willing to sacrifice short-term benefits to obtain long-term goals. Unlike realism, liberalism suggests that it is in the nature of like-minded liberal states to coexist peacefully, pursuing absolute, not relative gains. According to Robert Keohane, a regional hegemon, if democratic by nature, is less selfish, open, and beneficial for cooperation. He sees liberal political institutions as capable of moving the world to a more pacific state, by creating interdependence and shifting the centre of power relations away from states. Therefore, the existence of a hegemonic power is essential for maintaining peace and the world order (Keohane, 1984; Nye, 2004).

The literature review shows that the EAEU is considered as a tool for a neo-imperial drive for Russian hegemony in the post-Soviet space. However, the notions of imperi-

alism and hegemony, which are used in characterising Russian foreign policy in its Eurasian neighbourhood, rarely transcend the realist or other foundational paradigms. Therefore, this article undertakes the neo-Gramscian concept of hegemony, which stresses the historical role of the production forces upon which hegemony is built as a product of social interactions. This conceptual framework transcends conventional approaches in three ways. Firstly, it is no longer bound with the state-centric view of hegemony as the outcome of the distribution of relative power among states. Secondly, it challenges the orthodox tradition of defining power relations as purely rational. And finally, it introduces three main components of Gramsci's absolute historicism into the concept of hegemony: 1. "transience", according to which the formation of hegemony is a cumulative process and thus could not be fully repeated; 2. "historical necessity", which presumes that the formation of hegemony is constrained by prevailing social structures; 3. the dialectic nature of structure–agency relations, which makes hegemony possible through the consent of social agency to the main ideological structure (Morera, 1990, cited in Gill, 1991, p. 51). Therefore, hegemony is not a simple blend of material power, ideology and institutions (Keohane, 1984) but a reproductive system, in which the superstructure of political and cultural practices predetermine socioeconomic relations, where the ideas of the ruling class become unchallenged norms, a product of a class project.

2. There are two reasons, why the neo-Gramscian approach has been adopted as the baseline theory. First, the main research question (how successful is the EAEU as a tool of Russian regional hegemony?) implies the challenge of defining the notion of hegemony. As it was suggested, the neo-Gramscian concept of hegemony allows capturing all the facets of power relations, while alternative approaches represent fragmented conceptualisations of hegemonic power. Importantly, the EAEU is the project of integration. However, existing theories of integration, such as intergovernmentalism, neofunctionalism, or neoinstitutionalism (multilevel governance) could only partially be applied to our analysis for two reasons: 1. They are rationalist and consider agents and their identities as "constituted presocially", which ontologically contradicts the concept of hegemony we adopt (Apeldoorn, Overbeek, & Ryner, 2003, p. 29); 2. They have been elaborated vis-à-vis European experience and therefore don't reflect Eurasian peculiarities.

Second, the EAEU is an infant project, which makes it problematic to base the analysis on foundational ontology due to a lack of empirical evidence. Therefore, the best way to analyse Eurasian integration is by referring to absolute historicism, which presupposes the dialectical understanding of the relationship between political, economic, and socio-cultural factors when referring to Russian hegemony. Thus, the formation of the EAEU could be better analysed within a particular historic moment, which implies defining the phase of the country's capitalist development. Moreover, this approach lets us place our case study in the wider context of the international world order, which is so important in analysing integration.

3. According to Gramsci, the structure of production enters into dialectical relationship with social forces and determines power relations through establishing the combination

of the production forces: labour, land, capital and technology (Cox, 1987). The model is like a “layer cake”, in which production and world order are the bottom and top layers respectively, which predetermine the middle, state policy (Strange, 1997, p. 26). However, there are other structural elements or forces that interact with social forces. For instance, international finance is a force “derived from production”, which can “achieve autonomy from production” and “become a power over production relations” (Cox, 1987, p. 267). Susan Strange suggested that there were structures, other than production, that enter in relation with social forces: financial structure, which defines social relations in the process of the creation, and allocation of credit; knowledge structure, which emerges in the process of accumulation and transmission of information; security structure that affects different aspects of human life: physical, political, economic (Strange, 1991, pp. 35–37). One might disagree with Strange’s consideration that neo-Gramscianism reduces the other structures to “derivatives from production” (35–37). In fact, the neo-Gramscian understanding of hegemony is much broader and constitutes four ‘essential parts’ (core elements): institutional design, material capabilities (the capitalist system), security invulnerability (geopolitics) and cultural leadership (Linklater, 2005). Hegemony is not as a static notion but an evolutionary process, which passes through three phases: initial, transitional and conclusive, which depends on ‘internalisation and internationalisation’ of the hegemonic project through the reproduction of the core elements within various nations (Poulantzas, 1975, p. 74). At the initial stage an element achieves hegemony at the national level, then it enters the transitional phase by becoming a ‘transmission belt’, through which hegemony is ‘materially grounded’ in other states. The conclusive phase assumes that the element is ready to constitute the ‘essential part’ of the ‘moment of hegemony’ (Material capabilities – Institutions – Ideas) (Cox, 1981, p. 136). This presentation allows us to estimate the hegemonic phase for each of the elements, which, combined via SWOT-analysis, drives us to the conclusion of the article.

3. Material aspects of hegemony

3.1. Defining Russian capitalism

“Hegemonic systems within the state” are defined by the relation between the forces of production and political parties, and by levels of social coercion (Gramsci, 1971, cited in Morton, 2007, p. 69). Analysing Russian capitalism sets a complex task of determining historically formed dialectics between “vertical groups and horizontal stratifications”, where the former represent the state apparatus and the latter the social dimension of power relations (Gramsci, 1995, cited in Morton, 2007, p. 90). These dialectics in Russian society have had centrifugal tendencies, which led to concentration of ‘horizontal stratifications’ around the state power vertical. Central factors in defining the capitalism type are: 1) relationships among main social forces, specified by the mode of production, and by the ‘property right regime’; 2) rent flows distribution, which determines the formation of social institutions and ‘accumulated governance structures’ (Screpanti, 1999, p. 1). Considering these factors, Russian capitalism is defined as a monopoly capitalism, with 1) highly

concentrated ownership and control over the modes of production and 2) uneven distribution of capital rent. The biggest monopolist in Russia is the state, which controls 73% of the transport sector, 57% of shipping and airspace machinery, 50% of the gas industry, 49% of banking services, and 45% of the oil sector, which altogether form half of Russia’s GDP (Vedomosti, 2012). Russian monopoly capitalism is a hybrid of ‘state corporatism’ and ‘enterprise corporatism’, as the relations at the point of production vary from sector to sector. For instance, state corporatism predominates in strategic industries, such as the military and energy sectors, where the power of the state political elite rules over “both management and labour without any effective counterweight through parliamentary control or accountability” (Cox, 1987, p. 80). The best example of enterprise corporatism is Russia’s steel industry, where nine private monopolies, EvrazHolding, NLMK, Severstal, Magnitogorsk Iron and Steel Works, Mechel, Metalloinvest, OMK, TMK Group, and Chelpipe, account for 80% of steel and iron production in the country (Stalevarim.ru, 2013). The relationship at the point of production in enterprise corporatism is “between corporate management and state economic agencies” (Cox, 1987, p. 80).

Post-Soviet capitalist Russia developed in three phases: 1. Market liberalisation from 1991–1998, bringing the oligarchs into the political arena; 2. Reconstruction of vertical power from 1998–2008, leading to the rise of ‘siloviki’ (military power elites) and the middle class; 3. 2008–Present (2014), fortification of federal bureaucracy as the predominant social force. The analysis of the transformation of social class balances, as well as the formation of rent sources and rent distribution, is vital to understanding why Eurasian integration obtained practical meaning just recently. There are two factors that fuel integration: the necessity to respond to capital accumulation and surplus value realisation and the assertion of social consent through “geographic spread of state functions” in the process of legitimising new institutions (Cocks, 1980, pp. 14–15). It would be informative to analyse how these factors have been deployed within each phase of Russian post-Soviet capitalist development.

Phase I (1991–1998) established a ‘structurally distorted’ market economy, with capital accumulation driven by full scale privatisation of over 200,000 state enterprises at a fraction of their actual value (Dzero, 2011, p. 13; Yakovlev, 2014, p. 12) and huge disparity between domestic and world market prices for consumer goods and raw materials. State bureaucrats, new oligarchs and public opinion failed to agree on basic renting rules. Frequently unlawful property redistribution, growing income disparities, and the tragic ‘virtual economy’ of Ponzi schemes like MMM threw Russian society into chaos. The failure of integration initiatives launched in the 90s can be attributed both to the post-Soviet ‘identity vacuum’ and capital flight out of Russia, which reached \$2 billion a month under Yeltsin (Laruelle, 2009, cited in Dzero, 2011, p. 13). Thus, economic stagnation stripped a swindled population of trust for liberal principles and any integration project at that time of material and social support.

Phase II (1998–2008) began with the ‘cold shower’ of the financial crisis, which made state power elites reorder their relationships with oligarchs, or ‘powerful insiders’ (Dzarasov cited in Pirani, 2011, p. 499). Putin’s federal bureaucracy had

the contradictory tasks of fostering economic growth to reach social stability while counterbalancing the oligarchy with 'siloviki', representatives of security and law enforcement agencies (Yakovlev, 2014, p. 10). The siloviki's initial accommodation of medium-sized business was replaced by 'vertical power' as federal bureaucracy superseded the middle classes as the regime's foundation of political stability and economic development (Yakovlev, 2014). Nevertheless, the mutually deterrent balance between state power structures and big business distinguished Russian capitalism from some other post-Soviet states, like Ukraine, in which uncontrollable oligarchic governance drove the country into political turmoil. In the mid-2000s, Russia began 'modernisation from above' with a new wave of property redistribution in strategic economic sectors, involving higher echelons of the power elite. For instance, state control over oil production grew from 10% in 1998 to 45% in 2008; the consequence of the destruction of the old rent sources by the 1998 crisis, and the emergence of new sources of capital accumulation, such as natural rent, due to the favourable economic environment for core businesses in extraction industries.

The de facto nationalisation of giant corporations, such as Yukos, was welcomed by a population who felt deceived by privatisation. Importantly, Putin's attempts to restore national consensus were quite successful. Firstly, he established a collective unity among different social groups by "constructing national identity around unifying historical events and ideas" (Dzero, 2011, p. 28). Secondly, his leadership was presented as a natural continuation of Russian tradition, drawing frequent parallels to other strong Russian leaders like Peter the Great. Lastly, he constructed a new historic narrative, resurrecting nostalgic aspects of the Soviet past from Yeltsin's rash expulsion of the 'burdens of the Soviet Union' (Khrushcheva, 2006, cited in Dzero, 2011, p. 41). Exploiting disillusionment with liberal principles, associated with corruption and fraud, the pro-Putin intelligentsia began constructing an "intersubjective form of moral consciousness" for Russian citizens through mass media and cultural organisations, the "material structure of ideology" (Gramsci, 1996, pp. 52–53, Q3849, cited in Morton, 2007, p. 92). This was a successful start to forming an internal social base for a future protracted 'counter-hegemonic initiative' extending the 'historical block' into post-Soviet space. If in the 90s, integrations initiatives were met with public scepticism as a throwback to the Soviet regime, in the mid-2000s, closer cooperation with neighbouring countries with shared history, language and business culture gathered public support. Without broad enough support for a 'passive revolution', the 'siloviki' imposed ideological change from above using the state's media apparatus. Yet Russia was no longer "reduced to a state of prostration and inertia", subdued to the ruling party and power elites (Garibaldi, 2004, p. 15).

Phase III (2008–Present) opened a new page in the history of Russian capitalism. The Global Financial Crisis revealed controversies hidden behind Putin's re-centralisation of state power, "engendering it with a sense of legitimacy" (Dzero, 2011, p. 58). Public consent started to wane as the crisis intensified the conflict between the political bureaucracy and 'rent-seeking elitist groups'. The government needed additional social commitment from businesses, as the quantity of the natural rent assessable for distribution sharply de-

clined (Yakovlev, 2014, p. 11). Concurrently, the law enforcement machine, facing no political resistance, started to effect decision-making among middle and low level bureaucrats, who were trying to extract as much rent as possible from medium-size businesses. Therefore the 'siloviki', who had helped to reduce criminal pressure on business at the beginning of the 2000s, gradually became oppressive themselves. The situation was aggravated by the disappearance of the favourable market conditions which earlier alleviated the effect of the poor investment climate on business. The crisis of 2008 made the Russian authorities realise that the 'siloviki' and centralised federal bureaucracy could no longer constitute the regime's social base, and that consolidation of the middle class and defence of the interests of medium-size businesses was vital to secure economic growth and social stability. It is important to outline why the working class remains passive and is not directly involved in the class struggle analysis of the Russian capitalist system: class conflicts in Russia are covert, as the capitalist management practices "rarely penetrate beyond the level of senior management" and don't take the form of "direct confrontation between capital and labour" (Clarke, cited in Pirani, 2011, p. 504). Therefore, a peculiar feature of Russian capitalism is that class conflicts remain "diffused through the structure of management, appearing primarily in division within the management apparatus" (Ibid.).

3.2. Legal and institutional frameworks

The EAEU traces its origin to January 1995, when Russia, Belarus and Kazakhstan signed their first treaty to form a Customs Union (CU), later joined by Kyrgyzstan and Tajikistan. However, before the 2000s, there was little progress towards Eurasian integration, despite "ultimately unsubstantial initiatives", such as the Commonwealth of Independent States (1991), the first Customs Union, the Eurasian Economic Community – EurAzES (2000), which resulted in "fatigue and scepticism" (Dragneva & Wolczuk, 2013, p. 2). The ineffectiveness of former Eurasian institutions had three main causes. The first is economic: physical survival was the major concern of nascent post-Soviet states, as old economic ties were destroyed and new ones not yet created. In the course of political disintegration, economic integration seemed baseless. The second reason is geopolitical: in order to survive, some states proclaimed a 'multivector' foreign policy, backed by legal reforms and domestic market liberalisation to improve the investment climate. Stripped of any substantial financial resources, these countries saw Western economies as future investors; therefore, Eurasian integration was not economically prioritised. The last factor is social: there was no middle-class social base representing small and medium size businesses to anchor economic integration upon. Furthermore, socialist ideology was discredited while neoliberalism lacked mass support due to growing discontent with privatisation. All these factors, aggravated by aftershocks of the 1998 crisis, confined integration initiatives to elite circles.

The institutional design of the EAEU demonstrates continuity with its predecessors. However, Eurasian integration has experienced two drastic transformations. The first one was the creation of the Customs Union in 2007 on the basis

of EurAzES, which came into force in 2010 with the launch of the common tariff, further developed in 2011 with the elimination of internal physical border controls, and completed in 2012 with the inauguration of the single economic space (Dragneva & Wolczuk, 2012, p. 6). The CU introduced a “more effective legal and institutional framework”: the most important institutions were the Court of Justice and the Eurasian Economic Commission (EEC) in 2012 (Dragneva & Wolczuk, 2013, p. 2). The Union’s institutional framework managed to address four main problems. First, the Intergovernmental Council started codification of a contradictory and fragmented net of bilateral agreements into a constitutive unified legal regime, resulting in the adoption of the simpler ECU Customs Code. Second, the decisions of the EEC and other bodies were given ‘binding legal status’ and described as directly applicable, which meant that no special legislation or ratification was needed to make them effective domestically (Dragneva & Wolczuk, 2012, p. 7). Third, a dispute resolution mechanism was created with the adoption of a new Statute of the EEC Court in 2010, which made it possible for private parties to appeal against the actions of their business counterparts as well as decisions taken by ECU bodies. Fourth, in 2011 the legal framework of the CU was supplemented with provisions concerning Russian accession to the WTO, by the Treaty on the Functioning of the CU in the Multilateral System, which legally obliges the international agreement signed by the CU to comply with WTO rules (Dragneva & Wolczuk, 2012).

The second institutional transformation of Eurasian integration was initiated with the 2011 decision to form the Eurasian Union (the EAEU), which, unlike all previous regional projects, demonstrated “certain signs of effective supranationalism” (Kazharski, 2012, p. 1) and was an attempt to build an institutional design similar to that of the EU. It was agreed that the introduction of the Common Economic Space in 2012, based on the norms and principles of the WTO, and the creation of the EEC in the place of the former ECU Commission, would be the following stages of Eurasian integration, with the EAEU being its ultimate objective. In January 2015, new governing bodies will start functioning, replacing their EurAzES predecessors: the Parliamentary Assembly will substitute the Interparliamentary Assembly, the Eurasian Court – the Court of Justice, the High Eurasian Council will fill in for the Interstate Council, the Eurasian Economic Commission will continue its work (Galiakberov & Abdullin, 2014, pp. 4–5). The most radical step in the expansion of EEC powers is the future ‘Eurasian Parliament’. Unlike the preceding CU Commission, the EEC is empowered to negotiate and conclude international treaties on behalf of the ECU (later the EAEU), which could potentially strengthen the Union’s position as an international actor (Dragneva, 2013, p. 41 in Dragneva & Wolczuk, 2013). Another significant change is related to decision-making: whereas previously Russia’s dominant position was guaranteed by the built-in majority of 57% in the system of weighted votes, with Belarus and Kazakhstan each having 21.5% (Cooper, 2013, p. 21 in Dragneva & Wolczuk, 2013), the EEC departed from the system making it possible for Russia to be outvoted, with each of the three members having one vote. The ‘executive organ’ of the Commission, the Collegium, is formed in the ‘EU-Style’ and comprises nine

members, 3 from each country, each with one vote, with decisions taken either by consensus or a two-thirds super-majority¹ (Cooper, 2013, p. 54 in Dragneva & Wolczuk, 2013). This decision-making equality can be considered Russia’s step towards greater multilateralism.

3.3. Material aspects of hegemony: economic aspects: technology, finance and trade

The failed CIS-model of Eurasian integration demonstrates that successful integration cannot be attained by political will alone, as it requires an “adequate level of economic development” and public support (Galiakberov & Abdullin, 2014, p. 2). Although the Gramscian understanding of hegemony is an “essentially ethico-political concept” that “lacks a detailed economic analysis”, the importance of material power should not be neglected (Konrad, 2012, p. 3). Gramsci saw hegemony as rooted “in the decisive nucleus of economic activity” (Gramsci, 1971, p. 161, cited in Konrad).

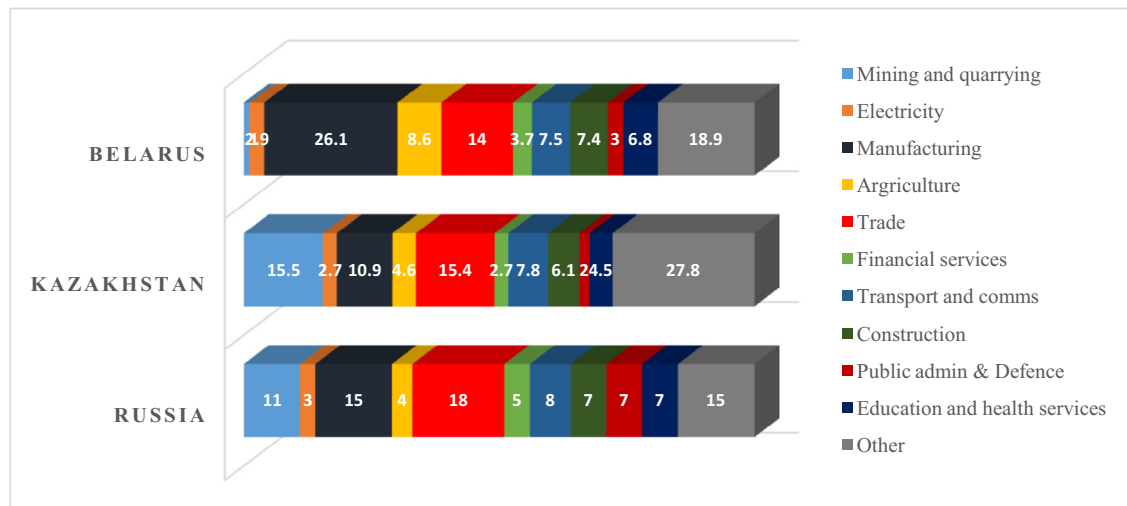
It is worth remembering that the Soviet Union was a common market long before the EU, and that the economies of the various participants in the USSR grew and developed as part of that wider economy, which is why the Russian government stresses that the goal of the EAEU is primarily to give additional substance to the members’ economic bases. Most recent papers on Eurasian integration are highly sceptical of the economic rationale behind the EAEU (Fear, 2013; Hartwell, 2013; Shepotilo Tarr & Kassenova, 2013). There are three main criticisms: the EAEU suffers from insufficient financial funds, structural homogeneity, and dimension asymmetry among its members. The objective of this section is to address Eurasian scepticism and evaluate the economic potential of the EAEU.

Problem N1. Structural homogeneity

The first problem outlined by academia lies in the structural homogeneity of the Russian and Kazakh economies, which results in weak economic activity among member states. Both economies are highly dependent on resource-based output, which reaches 11% of GDP in Russia, and 15.5% in Kazakhstan, comprising 66% and 63% of exports respectively. Importantly, the economy of Belarus is also highly dependent on the oil and gas sector: oil processing accounts for more than half of Belorussian manufacturing output and 33% of the country’s exports (Figs. 1 and 2).

The share of trade between the CU members in their overall trade turnover remains very low, 6.5% in 2014. In 2014, internal CU trade declined by 11% compared to 2013, from \$64.1 bn. to \$57.5 bn. Notably, hydrocarbons and oil products form a large share of internal CU trade (26% in 2015). The value of this trade is volatile and fluctuates with global oil prices, and production volumes are also variable, for example when large oilfields are shut for repair, or as a result of the reduction in Russian crude volumes processed in Belarus (which was the case in 2012). In 2013–2014, the decline of CU’s internal trade turnover was mainly caused by the 9.5% reduction in oil price, the main export for both Russia and Kazakhstan, from \$107.9/bbl (Urals) in 2013 to

¹ Treaty on the Eurasian Economic Commission, 18 November 2011.



Sources: National Statistical Agencies of Russia, Kazakhstan and Belarus

Fig. 1. Structure of economy 2013, % to GDP.

97.6/bbl in 2014. Furthermore, both the Russian Rouble and Kazakh Tenge suffered large devaluations in 2014.

Similar economies and technological retardation make it difficult for internal trade to be the engine of integration and also increase the risk of Russia and Kazakhstan becoming more synchronised in boom-bust cycles once integration proceeds (Hartwell, 2013, p. 413). Therefore, diversification of these economies is essential to receive the benefits of integration. However, one positive fact is that value added products comprise a larger share of internal trade between CU members than external CU trade with third parties. For instance, machinery comprises 3% of CU trade with third parties, and 20% in interstate trade, chemicals comprise 5% and 10% respectively (Sokov, 2014). Critics argue that this results from the low competitiveness of Eurasian products and the 'tariff umbrella',² which helped Russia oust 'better' and 'cheaper' European products from local markets (Tarr, 2012, 2). That was not always true: in some cases, when a Western product's market price was cheaper, its maintenance was much more expensive than that of its Russian analogy (Sokov, 2014).

However, structural homogeneity could become one of the driving forces of integration, as it sets common technological targets. Soviet inheritance of the common electric power infrastructure, transport and communication networks, and same research and development systems could foster technological cooperation in the "nature of reintegration" (Cooper, 2013, p. 22 in Dragneva & Wolczuk, 2013). This is already true for the nuclear energy sector: most of the uranium, mined in Kazakhstan by state-owned Kazatomprom is enriched in Russia by Rosatom, which plans to increase the nuclear share of the Russian energy balance from the 16% currently to 25% by 2020, lifting uranium con-

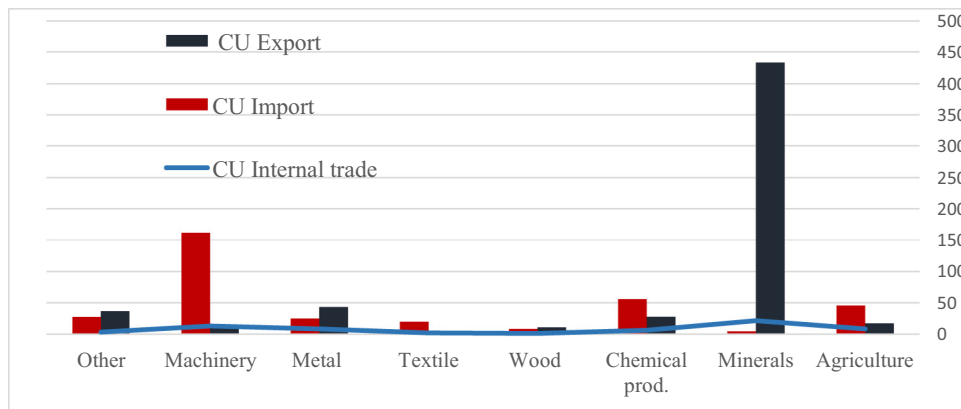
sumption to 18 thousand tonnes annually (EEC, 2014). There is also close cooperation between Russian and Belarusian monopolists in automobile engineering, and the manufacture of diesel engines and tractors. Russia and Kazakhstan developed joint projects in helicopter and railway car engineering, and pharmaceuticals, Russia and Belarus – in military equipment and radio-electronics, Belarus and Kazakhstan – in rail tank-car construction (EEC, 2013). In fact, Russia, Kazakhstan and Belarus have adopted independent programmes for modernisation (see Appendix A), which, when compared, have considerable potential for mergers (Tkachuk, 2014, pp. 54–55).

Problem N2. Economic asymmetry

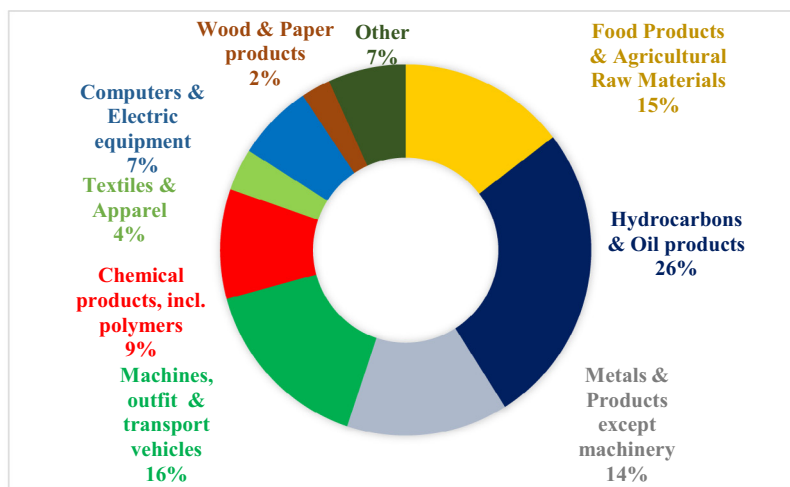
Existing theoretical frameworks for analysing integration asymmetries in the EU demonstrate a strong link between the "split in an asymmetric development of positive and negative integration" to the current crisis in the Eurozone (Hacker, 2013; Scharpf, 2010). The initial economic asymmetries in the size of economies, in the share of the block's internal and external trade turnover, in gains from external tariff structure, and in divergences between the common monetary and separate fiscal regimes – all led to asymmetrical supranational governance, which "cannot be corrected through political action at the European level" (Apeldoorn, 2007; Scharpf, 2010, p. 211). Furthermore, the asymmetries in the neoliberal socio-economic restructuring in some states, such as Greece, Spain and Portugal, "made the economic structure increasingly incompatible with further social developments" (Rodrigues & Reiss, 2012).

The second flaw of the CU and the future EAEU is the asymmetry in the size of the economies of its member states. Russia accounts for more than 80% of the Union's GDP, while Belarus for only 3%. This disparity increases the vulnerability of Kazakhstan and Belarus to weakness in the Russian economy: negative spill-over effects could worsen as the economies become more integrated (Cooper, 2013, p. 22 in

² For some goods in Kazakhstan, the common external tariff was higher than the previously existing one. This formed the 'tariff umbrella', which helped Russian products substitute their European analogies.



Sources: Author's calculations, the EEC 2014



Source: Author's calculations, the EAEU

Fig. 2. (1) Trade structure, \$bn. (2) CU internal trade turnover in 2014, %.

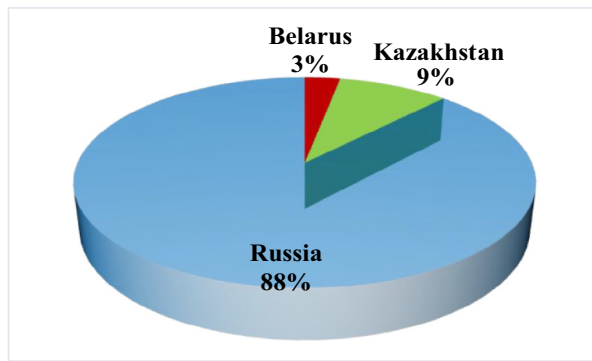
Dragneva & Wolczuk, 2013). The GDP of the new EAEU members, Armenia and Kyrgyzstan³ is considerably smaller than that of Russia, Kazakhstan and Belarus, therefore the initial economic effect of their integration will not be sizeable (Fig. 3).

Another significant asymmetry is the share of trade with CU members in the country's total trade turnover. The CU accounts for more than 50% of Belarus's foreign trade, but only 18% and 7.5% of Kazakhstan's and Russia's respectively (The EEC, 2013). Trade statistics demonstrate that the relative size of Russia in the CU is increasing, while "trade between Kazakhstan and Belarus is still miniscule": Only 1.5% of Belarus's imports are from Kazakhstan, accounting for just 0.1% of total Kazakh exports (Hartwell, 2013, p. 413). Starting in 2004, the EU, not Russia, is Kazakhstan's main trading partner (Kassenova, 2013, p. 143 in Dragneva & Wolczuk, 2013). In 2014, the EU accounted

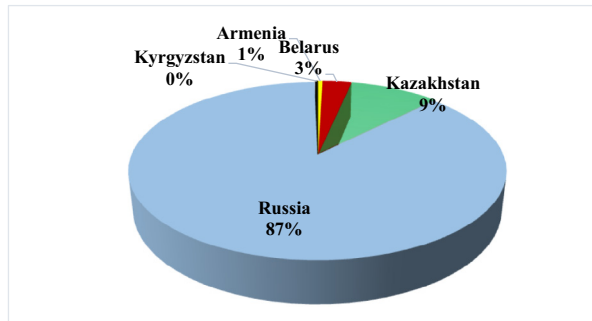
for around 53% of Kazakhstan's total trade turnover against Russia's 19%.

Further asymmetry stems from the unequal distribution of gains from integration among the member states. In the earlier stages of integration, Russia was accused of benefiting from the "tariff umbrella": common external tariffs in most cases harmonised with Russian tariffs, which were much higher than Kazakh ones, making Kazakhstan almost double its tariffs in the first years of the CU's existence (Tarr, 2012, p. 3). The tariff rises led to 'trade diversion' by displacing imports of equipment and material from Europe with imports from Russia, and implied a significant transfer of income from Kazakhstan to Russia. (Kassenova, 2013, p. 152 in Dragneva & Wolczuk, 2013). Another problem relates to Russia's accession to the WTO in 2012: Belarus and Kazakhstan were expected to open their markets to cheaper imports from WTO members, while not receiving lower customs rates in return (Frear, 2013, p. 127 in Dragneva & Wolczuk, 2013). However, with the EAEU agreements coming into force, the negative impact of 'trade diversion' will be mitigated, as progress in reducing non-tariff

³ At the time of writing, 1Q 2015, Kyrgyzstan's accession treaty has not been ratified yet. Armenia's accession treaty came into force on 2 January 2015.



Source: The EEC 2014



*See note 3. Tradingeconomics.com 2015

Fig. 3. (1) CU GDP in 2013, % of the total of \$2.39 trillion. (2) EAEU* GDP in 2014, % of the total of \$2.41 trillion.

barriers will outbalance the negative impact of the 'tariff umbrella' for the Kazakh market. Moreover, it is estimated that Russia's WTO accession will lead to the reduction of the CU's external tariffs by about 50%: after all commitments are implemented, the weighted average tariff will fall from 13% to 5.8% (Shepotylo & Tarr, 2012, p. 21).

The asymmetries in the benefits from the oil and gas sector will persist until at least 2020 (The EAEU agreement). Regulation of CU oil export tariffs remains outside the EAEU legal framework: Kazakh oil exporters pay higher Russian transit tariffs than domestic companies, and they don't have equal access to the Russian gas pipeline network, being forced to sell gas at the border (Kassenova, 2013, p. 153 in Dragneva & Wolczuk, 2013). However, the costs to the Russian oil and gas sector from integration exceed its benefits: in 2013 the price of Russian gas exported to Belarus was \$173/tm³, which was cheaper than the average price of gas exported to Europe (\$422/tm³). Initially, the Russian budget failed to receive almost \$9.5 bn. from oil and gas exports to Belarus, but later received compensation of \$3.8 bn. from oil processed for export in Belarus. Therefore Russian net oil and gas transfer to Belarus totalled \$5.7 bn. (Vedomosti, 2014).

Problem N3. How to finance economic nationalism?

The EAEU's third problem stems from the inconsistency of its financial system with its production development plans. About 60% of global trade (\$20 tn.) comprises trade in intermediate goods and services (UNCTAD, 2013). This signifies the importance of the participation of EAEU businesses in international production chains, whilst avoiding massive profit

transfers from the EAEU to stronger economies and global TNCs. The economically beneficial integration of Russia, Kazakhstan Belarus plus Kyrgyzstan and Armenia in global production chains could only be achieved by their technological advancement, as the proportion of the value added goods in Russian production and export structures demonstrates that Russian manufacturing industries are uncompetitive globally. This makes Russian capitalism refer to economic nationalism and regional integration to foster reindustrialisation. From the standpoint of uneven development of world capitalism, Eurasian integration is Russia's reaction "against intrusion from advanced nations" (Cocks, 1980, p. 22). Like the 'delayed industrialisation' of the nineteenth century (21), the recurrence of economic nationalism as an ideological force in Russian politics is dictated by the need to lift the competitiveness of local industries in global markets. Modifying Cocks's definition, we could characterise the stage of capitalist development in the EAEU countries as 'delayed reindustrialisation'.

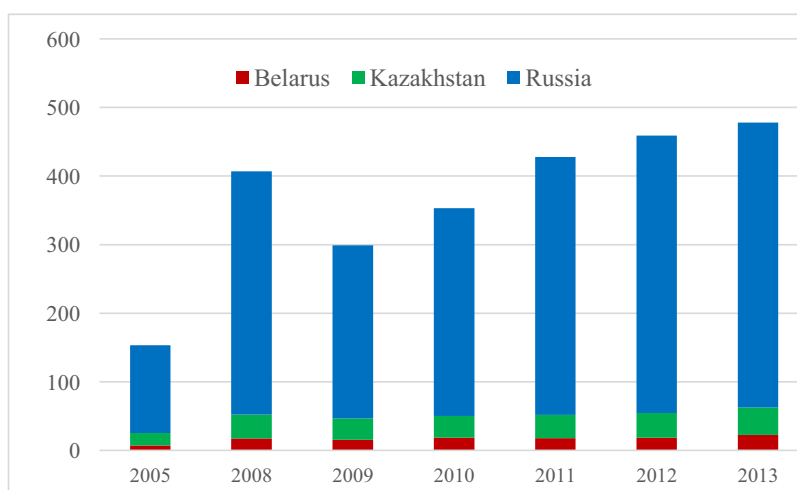
How to finance reindustrialisation and integration? Russian state capitalism has limited access to foreign capital, which keeps local banks capitalisation at low levels and makes them "strongly dependent on relations with individual oligarchs and the government" (Fifka & Robizhan, 2014, p. 3). In the past decade, the Russian banking sector has experienced consolidation, and fallen under supervision by the federal government. This policy aimed at 'clearing' the banking system of its weak players, however, is considered a positive trend by market experts, as further consolidation of the sector in 2014–2016 could raise its competitiveness and help to accumulate significant financial resources for the realisation of long-term projects, including industry modernisation (Moody's, 2014). At present, the share of foreign banks credits in Russia's overall capital investments is very low, at only 1%, while 46% of CAPEX is financed by corporations' own means. Among CU members, Kazakhstan has the largest exposure to foreign banks in financing capital assets at 20%, but the federal budget share remains high at 17%. The overall CAPEX dynamic in 2005–2013 was positive for all CU members (Figs. 4 and 5).

Despite the low dependency on foreign credits to finance current projects, financing the development of new projects internally is still problematic. Limited access to foreign credit sets a difficult task for the governments of the EAEU in finding internal sources to finance integration. The main problem the Russian and Kazakh economies face is the outflow of capital, challenging Russia's hegemonic project. For instance, in Russia between 1994 and 2010, the net capital outflow totalled \$382.2 bn., reaching its peak of \$129.9 bn. in 2008 (Pirani, 2011, p. 501). Aware of the problem, Russian regulatory authorities initiated "power pressure" on business in the form of "stronger persecution of entrepreneurs for tax evasion and use of offshore networks" (Yakovlev, 2014, p. 18).

4. Moving beyond political economy

4.1. Geopolitical challenges

As it was argued in Section 2.1, Eurasian integration was triggered by Russia's disillusionment with the neoliberal rules

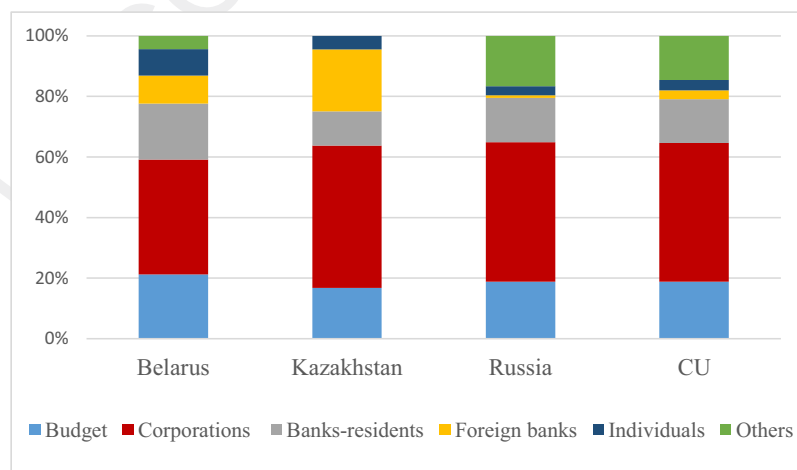


Source: EEC 2013

Fig. 4. CAPEX, \$bn. (current prices).

of the game: the attempt in the 1990s to transform Russian society according to democratic principles and open up its markets did not bring positive results, as the country was neither institutionally nor economically ready for instant liberalisation. Moreover, Russia was treated with suspicion by the West, which proceeded with its institutional development *against* rather than *with* Russia. The institutional expansion, from which Russia was *de facto* excluded, had three dimensions: a) political-economic (the IMF and the World Bank), b) military (NATO's operational activities), c) spatial (EU imperialism and NATO's physical border expansion). This *de facto* exclusion of Russia from political, economic and military developments in Europe left the country with no alternative other than integration project with the post-Soviet states.

In the 2000s, dissatisfied with the Western institutional expansion, the Putin and Medvedev presidencies reassessed Russian geopolitical strategy, defining the country's economic, social and territorial integrity and the restoration of its regional leadership as its principal targets. Russian state capitalism, if put in the wider context of the international world order, was used as protection from "universal projection of mass production" (Morton, 2007, p. 100), by combining "West-oriented liberalism and tradition-oriented nationalism" (Beom-Shik, 2009, p. 9). The accusation of a 'resurgent' Russia being "unsure about its global role" (Rabst, 2011, p. 32) torn between its Euro-Atlantic ties and its neo-imperial future is untrue. Russian authorities express a clear vision of the existing world order as multipolar, 'threatened' by US unilateralism (Beom-Shik,



Source: EEC 2013

Fig. 5. Sources of capital investment, %.

2009, p. 9). Ideologically, Russia's elite has a strong realist perception of the current world order as anarchic, with the increased "geopolitical struggle for control over resources" (Yakovlev, 2014, p. 13). From this standpoint the siloviki think-tank, the 'Izborskiy Club' developed a 'mobilisation scenario' for the country's future development: enhancement of Russia's military might, state control over strategic sectors of the economy, and reindustrialisation (Yakovlev, 2014). The Kremlin's official documents support this view: the *Foreign Policy Concept* (2008) characterised geopolitical unipolarity, "US economic and military dominance", and the declining significance of the UN, as major threats to Russian national interests (Kremlin.ru, 2008). Interestingly, this overt anti-American discourse took a more hidden form in the amended *Foreign Policy Concept* (2013): the main threat to national security is seen in the structural imbalances of the world economy and in intense global competition over natural, financial, and economic resources (MID.ru, 2013). This change in definitions after the 2008 crisis is attributed to the acknowledgement by the Russian authorities of the existing weaknesses of US hegemony, which signified new possibilities for Russia to strengthen world multipolarity (National Security Strategy, 2020, Kremlin.ru, 2008). Putin borrowed President Nazarbayev's (Nazarbayev, 1994) vision of Eurasian integration as a "model of a powerful, supranational association capable of becoming one of the poles of the modern world" and a bridge "between Europe and the dynamic Asia-Pacific Region" (Putin, 2011, cited in Golam, 2013, p. 162).

Not yet completed, the "bridge", however, shows signs of cracking, with the breaking point in Ukraine, the country which is torn apart by two expansionist fronts: Russia, on one side, and the EU and NATO, on the other. The crisis in Ukraine with all the ensuing consequences (economic sanctions against Russia)⁴ intensified geopolitical tensions in the region, and could not only affect the EAEU, but also impose a direct threat to Russian national security, an integral concept, which includes social, economic, military, informational, ecological, internal and external political security (National Security Strategy of the Russian Federation, 2009). As this concept depends on "the perception of threats, the protected values, and the means through which these values can be protected" (Buzan, 1983, cited in Nasu, 2011), the civil war in Ukraine could make Russian authorities reconsider their "perception of threats" and elaborate a new, more protectionist and anti-Western National Security Strategy. It can also be argued that the 'symbolic' sanctions, introduced by some states like Japan and Switzerland, compared to the enthusiasm with which other nations, including Argentina, China and Brazil, are willing to benefit from the situation by intensifying their trade with Russia, disclosed the long-standing geopolitical polarisation around two global poles: the US and BRICs (Koktysh, 2014).

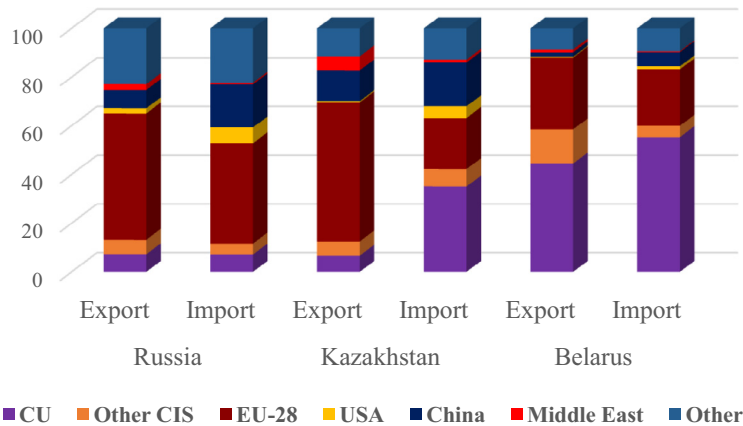
⁴ The US and the EU sanctions against Russia include: 1. limited access of Russian banks with state capital to the Western financial markets; 2. embargo on arms trade; 3. limitations on oil and gas technological cooperation. Russia responded by banning food and agricultural products from the US and the EU, except baby food and alcohol.

Economically, the situation in Ukraine challenges the EAEU in two spheres: finance and trade. The realisation of new economic projects in the EAEU is dependent on foreign sources; therefore Russia's restricted access to financial resources undermines its financial stability and imposes a significant threat to the EAEU. Sanctions against Russia have already urged the state oil company 'Rosneft', which bears a debt of \$54 bn. after the purchase of TNK-BP in 2013, to refer to the government for aid of \$44 bn. (Vedomosti, 2014). Statistics on foreign direct investment (FDI) show that integration of the capital markets of the EAEU is low: only in Belarus the share of the EAEU in the total FDI is relatively high, 36.1%; while in Kazakhstan and Russia it is 12% and 0.4% respectively (EEC, 2014). In 2013, foreign investment into the Russian economy amounted to \$170 bn., or 7.7% of GDP, in Kazakhstan it reached \$180 bn. (40%), and in Belarus \$15 bn. (22.7%). Russia is the main foreign investor in Belarus, 48% of total foreign investment. Kazakhstan, however, is highly dependent on investment from the EU (41% of total), while Russia's investment in Kazakhstan remains at the same level as China's, 17.9% and 17% respectively (Rosstat, 2014). The share of FDI in total foreign investment is 12% for Russia, 28% for Kazakhstan, and 72% for Belarus (EEC, 2013).

The EU is the major partner of the CU, reaching 51.9% of the block's trade turnover in 2014 (China – 12.5%, US – 3.7%, Ukraine – 4.2%). Preliminary estimations by European experts show that EU sanctions will cost Russia 23 bn. Euros in 2014 (1.5% GDP) and 75 bn. Euros in 2015 (Topornin, 2014). Moreover, Russia and Kazakhstan are highly dependent on the export of hydrocarbons to Europe. The security of oil and gas transit via Ukraine will remain vital for the Russian economy until at least 2016 for oil when some of the 15 mm. tonnes transported via the southern branch of the 'Druzjba' pipeline could be redirected into ESPO and BPS-II, and into oil processing in Russia (Transneft.ru, 2012), and 2018 for gas, when the South Stream pipeline will achieve its full capacity of 63 bn. m³/year (Gazprom.ru, 2014).

Fig. 6 shows that China is the second biggest trade partner of the EAEU. The increasing geopolitical significance of China raises important issues. China's military and economic might is expanding, and soon its economy "will overtake America's in size" (The Economist, 2014), bringing the EAEU the following opportunities: increased demand for hydrocarbons and other natural resources; increased FDI in EAEU economies and a counterweight to US geopolitical aspirations in Eurasia. The reverse side of the coin could be: the flooding of EAEU markets with cheap Chinese goods, an increased role for Chinese businesses in regional decision-making and the 'Chinesation' of Russian and Kazakh regions bordering with China. Illegal trade with China (The Times of Central Asia, 2005), as well as narco-traffic via the permeable Kyrgyz borders (Kupatadze, 2014), make border control strengthening one of the key priorities of the EAEU security policy.

The problem of controlling the Southern borders is linked to another geopolitical challenge, the formation of the Islamic Caliphate (IS) in June 2014. The IS is a powerful organisation, which controls a significant part of Syria and Iraq, and represents a common military and ideological threat to both NATO and the Collective Security Treaty



Source: EAEU 2015

Fig. 6. Trade geography, %.

Organization (CSTO).⁵ This threat cannot be neglected, and as Belarus president Lukashenko mentioned, the EAEU must develop its military cooperation on the base of CSTO to address such external threats as terrorism and radical Islamism (Lukashenko, 2014).

4.2. Moving beyond political economy: cultural leadership

Production, in its broader meaning, combines material power with the “production and reproduction of knowledge and of the social relations, morals and institutions that are prerequisites to the production of physical goods” (Cox, 1987, p. 39). The social factor is the cornerstone of successful hegemony, capable of legitimising the norms of the world order through social ‘consent and coercion’ (Cox, 1987). As was argued in Section 2, after the first social seeds of integration were planted in Russia, and state functions were embedded within the national geographic borders, Russian state capitalism needed to spread its authority across grater territorial areas. Social integration is vital to “legitimation of the new institutions” (Cocks, 1980, p. 14). The advancement of the Russian hegemonic project depends on how “reflexive and political” Russian national identity is (Habermas, 1998 in March & Olsen, 2009, p. 6), and on whether it has the capacity to form a Eurasian identity.

Ideologically, the Russian hegemonic project is derived from the geopolitical concept of Eurasianism. This is a modified version of the philosophical discourse developed by the “Russian pan-Eurasian nationalists” at the beginning of the XX century, who were preoccupied with the threat of “emerging regional identities”, such as pan-Americanism, to the Eurasian common culture (Golam, 2013, p. 161).

Eurasianism should not be confused with the radical neo-Eurasianism, which presents the West and Eurasia as inherently rival civilisations and is primarily imperialistic and anti-democratic (Dugin, 2002). Despite the fact the EAEU is positioned as a project, competitive at some point to China, the EU and the US, Eurasian ideology does not deny the main advancements of Western civilisation: the “political freedom provided by the separation of powers, the rule of law” (Lukin, 2014, pp. 52–57). The Eurasian understanding of individual freedom, however, differs from the neoliberal freedom “from moral constraints”, aimed at acquiring “greater material wealth”, as Eurasianism doesn’t consider the rights of individuals to be “the sole purpose of life”, but rather one among other ‘higher goals’, such as social prosperity, stability and harmony (Lukin, 2014). The question is whether this just and democratic form of Eurasianism, officially adopted by Russia’s power elites, could find its practical application and gain broader support among post-Soviet states. The recent crisis in Ukraine suggests that Eurasianism as an ideology is not strong enough to significantly challenge the neoliberal one in most of these states.

It seems natural to suppose that the common history of the Soviet past should help re-establish a Eurasian identity. For a while, Russian, Kazakh and Belorussian societies shared Soviet cultural values, which quite deeply penetrated various spheres of life. Some of these residual ‘values’, however, have a negative impact on the current political systems of the post-Soviet states, resulting in bureaucratic inflexibility, non-market ways of doing business, corruption and monopolisation of strategic industries. Therefore, in some situations, Russian businesses find it easier to deal with their Kazakh and Belarusian colleagues than with Western partners, because they exercise the same ‘way of doing business’ and share the same values, which in most cases signifies the usage of personal connections to the political power elite. Have there been any positive democratic developments in these societies in the last 20 years? Do Russia, Kazakhstan and Belarus possess compatible capitalist systems, with the middle class forming the social base

⁵ Intergovernmental military alliance formed in 1992 by some CIS states. Current members are Russia, Armenia, Kazakhstan, Kyrgyzstan, Tajikistan, Azerbaijan, Belarus, and Georgia.

for hegemony? In other words, can the Russian hegemonic project be characterised as a class project? As suggested in [Section 2](#), in the late 2000s Russian authorities took steps to consolidate the middle class, representing small and medium-size businesses, by protecting them from the pressures of the 'siloviki'. Among efficient institutional structures was the Agency for Strategic Initiatives (ASI), the practical result of which was the elimination of bureaucratic barriers for business development ([Yakovlev, 2014, p. 13](#)). These measures partly helped to secure social consent, which was further reinforced by a 'heavy emphasis on patriotism', on extensive democratic values and the 're-adoption of Soviet symbols' ([Dzero, 2011, p. 39](#)).

Among all post-Soviet states, Kazakhstan has the most similar capitalist system to that of Russia. In both states, the rise of economic nationalism in the 2000s started with the increase of direct (ownership) and indirect (changes in legal and tax regime) state participation in the oil and gas sector ([Kalyuzhnova & Nygaard, 2008, p. 1829](#)), which led to an expansion of state capitalism. The formation of a middle class in Kazakhstan ran parallel to state power consolidation. As in Russia, this process was hampered by a corrupt bureaucratic machine. However, compared to Russia, the Kazakh middle class is more fractured due to the specifics of the Kazakh economy, which is less diversified, and with an even higher concentration of property rights in the President's clan structures. This makes it difficult for Russian medium-size businesses to interact directly with their Kazakh colleagues, bypassing higher power echelons. Another difference between Russian and Kazakh social classes is that, in Kazakhstan, the working class plays an active destabilising role: in 2012–2013, the level of strikes in the mining and metallurgical industries reached its peak, because in Kazakhstan there is 'no operating mechanism for the solution of labour conflicts' ([Beissenova, Nurbekova, Zhanazarova, Dzyurenich, & Turebayeva, 2012, p. 828](#)).

In Belarus, a middle class exists, but it disposes no significant financial resources or political will to challenge existing state structures, which could be characterised as a "unique example in Europe of a presidential regime without an evident power or party political base other than the president himself" ([Marples, 2006, p. 355](#)). However, this regime has managed to create 'subaltern social groups' which have nothing but to 'adapt to the activities and interests promoted by the elites' due to their lack of political autonomy ([Howson & Smith, 2008](#)). Many in the West see the autocratic presidency of Lukashenko as 'artificial', based on total control over the mass media and political opposition (361). Partially true, this point of view, however, is not shared by the majority of the population of Belarus, which considers closer integration with Russia to be economically beneficial, compared to the EU's Association Agreement and Eastern Partnership programme (EaP), as the EaP does not consider integrating "the participating countries with the EU any time soon" and is being used by the West to strip Russia of its geopolitical allies, by imposing obligations without giving anything in return ([Zagorski, 2011, p. 60](#)). Nevertheless, despite its positive attitudes to the EAEU, the Belorussian middle class is not empowered to become a driving force for integration, as decision-making resides in the hands of the president.

Another significant obstacle to construct the Eurasian identity lies in post-Soviet rhetoric, which blames Russia for all the evils of the common Soviet past. Moscow is blamed for the spread of communism and the formation of a totalitarian regime. Since the dissolution of the USSR, a new generation of people has been brought up on anti-Soviet history textbooks, in which the collapse of the Soviet Union was interpreted as liberation from communist Russia. In some post-Soviet states, like Estonia and Ukraine, these textbooks acquired a radical nationalistic form. This Russophobia was intensified by an anti-Russian information war, in which any attempts by the Russian government to build closer connections with its neighbours were presented as an attack on state sovereignty and Moscow's willingness to restore the Soviet past.

5. Conclusion

This article has pioneered in applying the neo-Gramscian approach to analysing the potential for the EAEU as a Russian counter-hegemonic initiative. The novelty of the presentation of hegemony as an evolutionary process, which passes through initial, transitional and conclusive phases of its development, along with the recentness of the EAEU as a topic, could make this article a contribution to Eurasian integration studies. The estimation of the advancement of each "essential part" of the hegemony in achieving its target – the formation of a hegemonic block and the summary of the most important determining factors and variables in the SWOT-analysis (see [Appendix B](#)) bring us to the following conclusions:

- 1. Institutions: transitional phase.** The EAEU bodies were modelled on the EU, and institutionalisation took some features of supranationalism and multilateralism. However, the 'recreation' of European experiences in post-Soviet integration projects 'looks problematic': it is possible to copy the institutional framework, but not the content ([Kazharski, 2012, p. 1](#)). The term 'institution' refers not only to the organisation, but also to values and "prevailing codified and non-codified norms of behaviour" (Habermas, 1998, cited in [Fifka & Robizhan, 2014, p. 2](#)). In the future, the main distinction of the EAEU from the EU might lie in the norms of state capitalism, which implies the perception of the world market as the "ultimate determinant of development", which "does not posit any consensual regulation" regarding international trade and finance ([Cox, 1987, pp. 290–291](#)). This worldview might result in inefficiency of existing legal mechanisms and consolidation of capitalist monopolies backed by authoritarian regimes, concealed under a liberal veil, superficially resembling the EU. To avoid this institutional paralysis and to complete the institutional formation, the EAEU members should develop democratic practices alongside their institutional base.
- 2. Capitalist system: transitional phase.** Kazakhstan and Belarus exhibit monopoly capitalist formations, through which Russian capitalism aims to reinforce the competitiveness of Russian national and Eurasian joint production projects in world markets. The

creation of a competitive environment within the common market is a secondary objective. The present hegemonic project seems to prioritise big-scale monopolistic projects over general competitive businesses development. However, if small and medium-size enterprises are not taken into account, monopoly capitalism will fail to engender social consent for Eurasian integration.

3. **Economics: initial stage.** So far the economic element of Russian hegemony remains weak, due to the EAEU member's insufficient economic diversification, technological retardation, low internal trade turnover, and limited access to external financing. The realisation of new economic projects is highly dependent on the members own financial resources, which could only be mobilised by reducing capital outflows and improving the investment climate. However, the EAEU "weaknesses", such as homogeneity, when combined with the monopolistic nature of capitalism, could be transformed into the hegemonic project's driving force: Russia, Kazakhstan, Belarus, Armenia and Kyrgyzstan can merge their efforts to proceed with 'reindustrialisation', to create transnational sectorial holdings and develop joint technological and professional bases.
4. **Geopolitics: in transition.** After thirty years of might, the neoliberal ideology has revealed its flaws: economic and financial liberalisation aggravated social inequalities and resulted in the structural imbalances of the world economy. Military conflicts between social classes and nations have intensified, making aggressors out of the US-led hegemonic block. The financial crisis of 2008 symbolised the peak of tensions and ideological weaknesses, which caused "powerful disintegrative effects" within the neoliberal block (Cafruny & Ryner, 2007, p. 133). Here lies the explanation of the relevant success of the present Eurasian integration compared

to its predecessors: the current geopolitical situation is fertile ground for launching a 'counter-hegemonic' initiative, which acquires different forms, from peaceful regional integration to radical religious socio-political movements, such as ISIS.

5. **Cultural leadership: approaching transition.** Although formed in Russia, the middle class has not been yet consolidated as the social base for the hegemonic project. The major flaw of the existing capitalist societies in the EAEU states is the low efficiency of the democratic power structures through which the formation of cultural leadership can take place. The argument that 'only a modern democratic state has the resources to develop systems of mass persuasion' is true in this respect (Fontana, 2008). Moreover, the formation of a Eurasian identity is in its initial stage. The EAEU authorities should work hard on the construction of a common identity by launching cultural projects to battle Russo-phobia. The cultural domination could be possible if all the principles declared by Eurasian ideology are practically observed and backed by democratic institutions, created to fortify the middle class as the social base for the hegemonic project.

These conclusions, summarized in the SWOT analysis, could have a practical implication for politicians, economists and other parties' involved in Eurasian integration. However, the lack of empirical evidence due to the EAEU's immaturity and obscurity as well as the absence of Kyrgyzstan's and Armenia's economic statistical data in the economic analysis are the article's weakest points. Soon after the Eurasian Union is no longer a future perspective but an existing reality, further research would be needed to estimate opportunities and threats of the EAEU as the Russian hegemonic project, more theoretical methods could be then applied to widen the scientific narrative concerning this topic.

Appendices

Appendix A. Sectors 'prioritised' for development

	Belarus	Kazakhstan	Russia
Information and communication technologies		Including transport	Including space communication
Aviation and space industry		Excluding aviation	
Pharmaceutics		Including other chemical industries	Including medical equipment
Microbiology			
Biotechnology			
Electronics			Including radio electronics
Nano-industry			
Nuclear energy			
Metallurgy			
Defence			
Shipbuilding			
Petrochemicals	Chemical and petrochemical cluster		
Agriculture			Including fishing
Construction			
Energy infrastructure			

Sources: Tkachuk 2014 (Concept for long-term socio-economic development of the Russian Federation for the period till 2020, national strategy for sustainable development of the Republic of Belarus for the period till 2020, strategic plan for development for Kazakhstan till 2020.

Appendix B. SWOT

Strengths	Weaknesses	Opportunities	Threats
<p>Capitalist system</p> <ul style="list-style-type: none"> • Existence of politicised middle class • Class conflicts diffused through the structure of management • Resource accumulation (monopolisation of strategic sectors) 	<ul style="list-style-type: none"> • Excess power of 'siloviki' • Administrative barriers for efficient competitive environment for medium-size businesses 	<ul style="list-style-type: none"> • Further consolidation and politicisation of the middle class in Russia • "Business-centred modernisation" • Quick mobilisation of resources due to high monopolisation of strategic sectors • Protection from "universal projection of mass production" (where required) 	<ul style="list-style-type: none"> • Strengthening of power vertical; 'siloviki' as regime's social base • "Modernisation from above"
<p>Institutions/Legal base</p> <ul style="list-style-type: none"> • Codified legal structure • Dispute resolution mechanism • Russia's WTO membership • Features of supranationalism • Fair decision-making mechanism (Equal voting) <p>Economics (Technology/Finance/Trade)</p> <ul style="list-style-type: none"> • Structural homogeneity: Same technological goals • Common power, transport and communication infrastructure • Similar educational and research system • High concentration of financial resources (consolidation of banking sector) • Economic protectionism of strategic industries • Low dependence on foreign credits to finance capital expenditures • Cheap labour/ Increased labour migration 	<ul style="list-style-type: none"> • Incomplete law enforcement mechanisms • "State capitalist" nature of institutional building • Weakness of democratic institutions (especially in Belarus) <p>Structural homogeneity/ Insufficient diversification: high dependency on the single market (the EU), and resource based export structure</p> <ul style="list-style-type: none"> • Technological retardation • Dimensional asymmetry • Low level of internal trade in the overall trade turnover • Low capitalisation of banking sector • Low integration of capital markets (FDI) • Underdeveloped financial sector • Poor investment climate • Declining population 	<ul style="list-style-type: none"> • Strengthening of the EAEU position as an international player • Development of a greater multilateralism <p>Structural homogeneity: joint project development to compete in the global market and increase participation in global production chains</p> <ul style="list-style-type: none"> • Mobilisation of financial resources due to their consolidated structure • Reindustrialisation: increased share of value-added products in trade with third-parties • Creation of joint technological base for cooperation • Gradual trade liberalisation (in line with WTO norms) 	<ul style="list-style-type: none"> • Persistent inefficiency and non-adaptability of legal mechanisms • The formation of a unipliable, anti-liberal, corrupted bureaucratic machine • Democratic development lagging <p>Structural homogeneity + dimensional asymmetry: low intra-EAEU trade potential for growth</p> <ul style="list-style-type: none"> • Vulnerability of Kazakhstan and Belarus to the negative trends of Russian economy • Synchronised boom-bust cycles • Increased profit transfers to global TNCs • Insufficient access to foreign financial resources to finance new projects • Outflow of capital • World market instability/ financial, economic crises, fall in the oil price
<p>Geopolitics</p> <ul style="list-style-type: none"> • Clear National Security Strategy and National Security Concept • Good relations with BRICs partners and Turkey • The EAEU enlargement: Armenia to join by the end of the 2014, Kyrgyzstan declared its intention to join by 2015 • Favourable historical moment (contradictions within the neoliberal block) 	<ul style="list-style-type: none"> • Strong realist perception of the world order • Mutual mistrust with the US • Very low chance Ukraine will join the EAEU • The crisis in Ukraine • Geographical proximity to unstable regions (Afghanistan, Iran, etc.) • Poor border controls with China, Afghanistan, and Tajikistan 	<ul style="list-style-type: none"> • Transformation of the EAEU into a supranational association – one of the poles of the modern world • Development of 'multipolarity' by further consolidation of BRICs • Combination of "West-oriented liberalism" with "tradition-oriented nationalism" • Improved relations with the EU due to the weakening of the neoliberal bloc: Europe's hive-off from the US • Import substitution in some sectors/ The usage of temporary contra-sanctions against the EU, the US to boost domestic production 	<ul style="list-style-type: none"> • US unilateralism • Further exclusion from NATO's institutional expansion • EU imperialism • Escalation of tensions over Ukraine/ further sanctions against Russia: limited access to financial resources, problems with oil and gas export/transit to Europe • Adoption of a more anti-Western National Security Strategy in Russia • Pressure on Kazakhstan, which is vulnerable to foreign capital • Increased dependence on the Chinese political economy • Spread of Islamic radicalism/ terrorism, narco-traffic and illegal trade
<p>Ideology/Social base</p> <ul style="list-style-type: none"> • Apparent attractiveness of Eurasianism as an ideology • Re-established Russian national identity • Mostly positive attitudes to the EAEU in Belarus and Kazakhstan 	<ul style="list-style-type: none"> • Scepticism concerning practical application of Eurasianism • The absence of a common Eurasian identity • Fractured 'middle class' in Kazakhstan, reliance on personal connections • Artificiality of social consent in Belarus: autocratic presidency • Anti-Russian rhetoric (education/ Western mass media) 	<ul style="list-style-type: none"> • Formation of the common Eurasian information and communication field • New common cultural and educational projects (such as same TV and theatre programmes) • Formation of the social base for integration/Construction of common Eurasian identity 	<ul style="list-style-type: none"> • Increased Russo-phobia and anti-Russian propaganda • Reinforcement of Soviet-type ways of doing business and delays in the development of democratic institutions • Failure to form a Eurasian identity

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